

Westfair
Foods
Ltd.

Annual
Report
1978

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1978

Westfair

**Westfair Foods Ltd. is a major wholesaler and
retailer of food products in Western Canada
and the Southwestern U.S.A.**

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Report to Shareholders



During 1978 your company continued to progress and to maintain its position as a leading force in the marketplace.

With all divisions of the company contributing to the satisfactory results obtained, 1978 sales increased to a record of \$617,743,000. Net earnings for the year were \$4,831,000.

Continuing the progressive approach of recent years, \$9,416,000 was invested in capital assets. In addition, the company acquired a food distribution operation in Albuquerque, New Mexico. Moreover, the company maintained its healthy financial condition as reflected in the adequate ratio of current assets to current liabilities.

A major wholesale warehouse expansion at Thunder Bay gives our company the most modern warehouse facility in Northwest Ontario. Frozen food facilities were added to Regina, Saskatoon, The Pas, Yorkton and Dauphin.

1978 saw major developments in corporate and independent retail stores. A new corporate O.K. Economy supermarket opened in Saskatoon. Major remodelling projects were completed at two corporate O.K. Economy stores in Regina. An uneconomical store in Saskatoon was closed and an O.K. Economy supermarket in Lloydminster was sold to an independent operator. The majority

of the construction was completed on our company's largest store (54,000 square feet) opening in mid-March 1979 in Saskatoon under the banner of Super Valu.

During 1978 we assisted in the planning and construction of 20 new independently operated stores and assisted in expanding and remodelling 16 stores.

In the course of the year, it was necessary for the financial health and stability of a number of independent customers to make adjustments to their rental and interest factors resulting in the decrease in net earnings.

During the year we upgraded our computer systems enabling us to handle more efficiently, our continually increasing volumes. In February 1979 the Loblaw's Park West store in Winnipeg became the first supermarket in Manitoba to implement a fully automated checkout system. The Saskatoon Super Valu store will also be equipped with this new checkout system.

In 1978 we expanded the zone management concept with installation of zone managers for Alberta wholesale, for South Saskatchewan wholesale, and for Northwest Ontario wholesale and retail.

At the beginning of 1979, the wholesale operations of Western Grocers and Dominion Fruit were consolidated under Western Grocers.

The food service operation has expanded and is now run as Sunspun Food Service.

During 1979 expansion is planned to the Winnipeg warehouse facility. A modern 150,000 square foot warehouse is planned for Edmonton. Calgary will be the site of a new Cash & Carry warehouse. A major office expansion in Winnipeg will be completed in April 1979.

U.S. Operations—Western Grocers Inc.

This division has continued the growth pattern set in 1977. Until

August 1978 this division comprised a substantial wholesale distribution centre in Denver, plus a Cash & Carry warehouse complementing this centre. In August 1978, the division purchased a large distribution complex in Albuquerque. The latter months of the year were spent reorganizing and preparing the Albuquerque centre to service substantial volumes to new customers commencing in 1979. The increase in our sales potential base will enable the total business of the division to exceed \$200,000,000 in 1979.

During 1979 Westfair's emphasis will again be placed on profitable growth through new wholesale facilities and new retail outlets, both corporate and independent.

The independent retailer is the base strength of our organization. To this end the commitment made to you in my 1977 report is re-stated: "We are committed to the retail independent and are prepared to employ substantial resources towards their continued success."

The 1978 economy in Canada and the United States was not strong. GNP growth did not develop as required; unemployment and inflation remained very high. Poor growing conditions for produce, the world shortage of beef, and the weak position of the Canadian dollar contributed to high food prices. 1979 does not promise easier operating conditions, however, your company's continued investment in the food industry is an indicator of the confidence and the positive attitude held.


We wish to express our appreciation for the continued loyal support of our employees and our customers. It is with this support that we enter 1979 in full stride with complete confidence.

M. D. Booty
President and
Chief Operating Officer

Five Year Review

Westfair Foods Ltd.

(in thousands of dollars)



	1978	1977	1976	1975	1974
Sales	\$617,743	\$504,945	\$390,832	\$338,217	\$306,926
Net earnings	4,831	6,191	4,437	6,329	7,868*
Depreciation	3,275	2,784	1,788	2,133	1,961
Working capital	18,389	24,633	26,476	28,289	18,443
Shareholders' equity	57,768	55,652	51,357	48,335	43,421
Total Assets	\$ 99,671	\$ 88,088	\$ 78,065	\$ 68,724	\$ 61,072

* after extraordinary income item of \$3,750

Consolidated Statements of Earnings and Retained Earnings

Westfair Foods Ltd.

52 weeks ended December 30, 1978

and December 31, 1977

(in thousands of dollars)

Consolidated Statement of Earnings

	1978	1977
Sales and other income		
Sales	\$617,743	\$504,945
Investment income (note 4)	1,640	1,794
Gain on sale of fixed assets	285	397
	619,668	507,136
Operating expenses		
Cost of sales, selling and administrative expenses before the following items	600,011	489,947
Depreciation	3,275	2,784
Net rentals on long-term leases	4,588	2,595
Amortization of intangibles and deferred charges	335	335
	608,209	495,661
Operating income	11,459	11,475
Interest on long-term debt	318	335
Other interest expense	570	158
	888	493
Earnings before income taxes	10,571	10,982
Income taxes (note 2)	5,740	4,791
Net earnings for the period	\$ 4,831	\$ 6,191
Per common share	\$53.22	\$68.91

Consolidated Statement of Retained Earnings

Retained earnings at beginning of period	\$ 53,435	\$ 49,140
Net earnings for the period	4,831	6,191
	58,266	55,331
Dividends declared		
Preferred shares	84	84
Class A shares	135	135
Common shares	2,496	1,677
	2,715	1,896
Retained earnings at end of period	\$ 55,551	\$53,435

Consolidated Balance Sheet

Westfair Foods Ltd.
(incorporated under the laws of Canada)
as at December 30, 1978 and December 31, 1977
(in thousands of dollars)

Assets	1978	1977
Current assets		
Cash and short-term investments	\$ 151	\$10,004
Accounts receivable (note 3)	13,272	8,456
Inventories	39,451	31,800
Prepaid expenses	956	838
	53,830	51,098
Investments and other assets		
Land held for sale or development	2,371	1,306
Secured loans and advances	3,721	3,744
Sundry investments, at cost (note 4)	3,895	3,901
	9,987	8,951
Fixed assets		
Buildings, equipment and leasehold improvements, at cost	48,445	40,477
Less accumulated depreciation	19,923	17,142
	28,522	23,335
Land, at cost	6,732	3,770
	35,254	27,105
Intangibles and deferred charges, less amortization		
Goodwill	600	720
Deferred account recoverable		214
	600	934
	\$99,671	\$88,088

On behalf of the board:

R. J. Addington *Director*

M. D. Booty *Director*

Liabilities	1978	1977
Current liabilities		
Accounts payable and accrued liabilities	\$27,554	\$20,990
Accounts payable, affiliated companies	2,968	1,908
Income and other taxes payable	3,975	2,928
Dividends payable (note 5)	697	532
Long-term debt payable within one year	247	107
	35,441	26,465
Long-term debt (note 6)	3,796	3,325
Deferred income taxes	1,981	2,216
Deferred real estate income	685	430
	41,903	32,436
Shareholders' Equity		
Capital stock (note 7)		
Authorized		
175,000 Preferred shares, par value \$20 each		
150,000 Class A shares without par value		
150,000 Common shares without par value		
Issued		
59,715 Preferred shares (\$1.40 series)	1,194	1,194
67,772 Class A shares	1,023	1,023
86,658 Common shares		
Retained earnings	55,551	53,435
	57,768	55,652
	\$99,671	\$88,088

Consolidated Statement of Changes in Financial Position

Westfair Foods Ltd.
52 weeks ended December 30, 1978
and December 31, 1977
(in thousands of dollars)

	1978	1977
Sources of working capital		
Operations		
Earnings	\$ 4,831	\$ 6,191
Depreciation	3,275	2,784
Gain on disposal of fixed assets	(285)	(397)
Income taxes not requiring cash	(235)	(163)
Amortization of deferred real estate income	(39)	(39)
Amortization of intangibles and deferred charges	335	335
Cash flow from operations	7,882	8,711
Financing		
Issue of long-term debt		2,671
Other items		
Proceeds from sale of real estate option	152	
Decrease in sundry investments	6	
Proceeds from disposal of land held for sale		576
Proceeds from disposal of fixed assets	1,154	1,047
Decrease in secured loans and advances	23	
Total sources of working capital	9,217	13,005
Uses of working capital		
Reinvestment		
Purchase and carrying costs of land held for sale or development	1,065	103
Purchase of fixed assets	9,416	7,081
Acquisition of wholesale food distribution operation (net of working capital acquired of \$4,466,000)	2,262	
Increase in secured loans and advances		2,206
Increase in sundry investments		4
Financing		
Reduction in long term debt	3	3,558
Dividends	2,715	1,896
Total uses of working capital	15,461	14,848
Decrease in working capital	6,244	1,843
Working capital at beginning of period	24,633	26,476
Working capital at end of period	\$18,389	\$24,633

Notes to Consolidated Financial Statements

Westfair Foods Ltd.

52 weeks ended December 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

- (i) The consolidated financial statements include the accounts of the Company and all its subsidiaries.
- (ii) All material inter-company transactions have been eliminated.

(b) Inventories

Retail store inventories are stated at the lower of cost and net realizable value less normal profit margin. All other inventories are stated at the lower of cost and net realizable value.

(c) Land held for sale or development

Land held for sale or development is stated at the lower of cost, including direct carrying charges and net realizable value.

(d) Goodwill

Goodwill arises from the excess of cost of assets over fair value of net assets acquired. The Company's policy is to amortize the goodwill over a period of ten years.

(e) Fixed assets

All fixed assets are stated at cost. Depreciation is recorded on a straight-line basis to amortize the cost of fixed assets over their estimated useful lives. The depreciation rates are substantially as follows:

Buildings	2 ½% to 5%
Automotive equipment	12 ½% to 22 ½%
Equipment and fixtures	10% to 20%
Leasehold improvements	Lesser of useful life or term of lease

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in earnings.

(f) Deferred real estate income

The profits realized on the sale and lease-back of property have been deferred and are being amortized at various rates according to the remaining term of the respective leases.

(g) Foreign exchange

All U.S. balances have been translated at a rate approximating the current rate at each year end. The net difference on the translation of the Company's equity in U.S. subsidiaries has been deferred and is included in fixed assets as a reduction thereof.

(h) Acquisition

During the period a subsidiary company acquired a wholesale food distribution operation in Albuquerque, New Mexico. The operating results of this division have been included in the consolidated statement of earnings from the effective date of acquisition.

The acquisition equation is set out below:

Net assets acquired at fair value	(in thousands of dollars)
Current assets	\$4,491
Fixed assets	2,736
	<u>7,227</u>
Current liabilities	\$ 25
Long-term debt	474
	<u>\$6,728</u>
Consideration	
Cash	<u>\$6,728</u>

2. INCOME TAXES

A potential income tax benefit of approximately \$850,000 from losses carried forward by a subsidiary has not been reflected in the financial statements.

3. ACCOUNTS RECEIVABLE

	<u>1978</u>	<u>1977</u>
	(in thousands of dollars)	
Trade	\$12,813	\$7,182
Affiliated companies	102	15
Loans, advances, mortgages and non-current receivables due within one year	357	1,259
	<u>\$13,272</u>	<u>\$8,456</u>

4. SUNDRY INVESTMENTS AND INVESTMENT INCOME

Sundry investments include \$3,750,000 in preferred shares of an affiliated company. Investment income includes dividends and interest of \$1,426,000 from affiliated companies.

5. DIVIDENDS PAYABLE

Dividends payable of \$697,000 includes \$632,000 payable to affiliated companies.

6. LONG-TERM DEBT

	<u>1978</u>	<u>1977</u>
	(in thousands of dollars)	
Westfair Properties Ltd.		
First mortgage bonds		
Series A, 5 ¾% sinking		
fund debenture due		
December 15, 1986	\$ 744	\$ 780
Western Grocers Inc.		
(repayable in U.S. dollars)		
7% Mortgage due		
May 1, 1984	445	
8 ⅞% Mortgage due		
July 1, 1997	2,570	2,375
9 ½% Mortgage due		
September 1, 1997	189	175
11% Mortgage due		
December 30, 1982	95	102
	<u>4,043</u>	<u>3,432</u>
Less instalments due		
within one year	<u>247</u>	<u>107</u>
	<u>\$ 3,796</u>	<u>\$3,325</u>

Instalments on long-term debt due in each of the next

five years are:	1979	\$247,000
	1980	260,000
	1981	275,000
	1982	290,000
	1983	276,000

7. CAPITAL STOCK

The holders of the preferred shares (\$1.40 Series) are entitled to a dividend, when and as declared, of \$1.40 per share per annum on a cumulative non-participating basis. These shares are non-redeemable but may be purchased by the Company for cancellation. The holders of the Class A shares are entitled to dividends, when and as declared, of \$2.00 per share per annum on a non-cumulative, non-participating basis. No dividends shall be paid or declared for payment on common shares in any fiscal period unless and until dividends at the rate of \$2.00 per share for such year have been paid or declared on the Class A shares.

8. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) The Company and its subsidiaries have commitments under long-term leases for retail outlets, warehousing facilities, equipment and store fixtures. The aggregate minimum rentals, less expected sublease income (exclusive of additional rents based on sales or realty taxes and other charges) under long-term leases with an initial term greater than five years are as follows for each of the periods shown.

	Gross liability	Expected sublease income	Net liability
	(in thousands of dollars)		
For the year			
1979	\$ 5,412	\$ 2,510	\$ 2,902
1980	5,442	2,326	3,116
1981	5,192	2,086	3,106
1982	4,774	1,815	2,959
1983	4,255	1,710	2,545
For the five years ending			
1988	15,625	6,384	9,241
1993	11,770	4,594	7,176
1998	7,351	2,536	4,815
2003	1,788	656	1,132
Thereafter	393	173	220
	<u>\$62,002</u>	<u>\$24,790</u>	<u>\$37,212</u>

(b) At December 30, 1978 guarantees amounted to \$233,000.

9. DIRECTORS' AND OFFICERS' REMUNERATION

Number of directors	4						
Number of officers	6						
Number of officers who are directors	3						
	<table><tr><th>Directors' fees</th><th>Other remuneration</th></tr><tr><td>Paid by the company</td><td>\$ Nil</td></tr><tr><td>Paid by subsidiary</td><td>Nil</td></tr></table>	Directors' fees	Other remuneration	Paid by the company	\$ Nil	Paid by subsidiary	Nil
Directors' fees	Other remuneration						
Paid by the company	\$ Nil						
Paid by subsidiary	Nil						

10. ANTI-INFLATION ACT

The Company and its Canadian subsidiaries are subject to Anti-inflation legislation of the Federal Government. This legislation, which provides for restraint of profit with respect to prices, profit margins and employee compensation expired December 31, 1978.

11. COMPARATIVE FIGURES

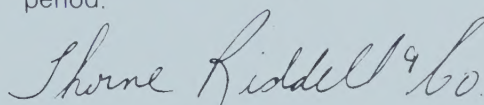
Certain comparative figures for 1977 have been re-classified to conform with the presentation adopted for the current period.

Auditors' Report

To the Shareholders of
Westfair Foods Ltd.

We have examined the consolidated balance sheet of Westfair Foods Ltd. as at December 30, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 30, 1978 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.



Chartered Accountants
Winnipeg, Canada
January 26, 1979

Directors

Officers

Raymond J. Addington
Mervyn D. Booty
Keith W. Campbell
Charles M. Humphrys

Raymond J. Addington
Chairman & Chief Executive Officer
Mervyn D. Booty
President & Chief Operating Officer
Keith W. Campbell, C.A.
Sr. Vice President
Charles V. Bemben
Vice President
David G. King, C.A.
Vice President, Controller
Thomas E. Anderson
Assistant Secretary

Transfer Agent

The Royal Trust Company

Auditors

Thorne Riddell & Co.

Solicitors

Pitblado & Hoskin

Stock Listings

Toronto and Winnipeg
Stock Exchanges

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